

## Message Text

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S E C R E MOSCOW 13135

NODIS CHEROKEE

FROM UNDER SECRETARY ROBINSON

E.O. 11652 GDS

TAGS: OVIP (ROBINSON, CHARLES W.)

SUBJ: SOVIET GRAIN/OIL NEGOTIATIONS

REF: MOSCOW 13131

1. BEGIN SUMMARY. I MET TONIGHT WITH THE TEAM HEADED BY FIRST DEPUTY MINISTER KUZ'MIN TO DISCUSS AN OIL PURCHASE AGREEMENT PARALLEL TO OUR GRAIN SALES NEGOTIATION AS PREVIOUSLY AGREED WITH MINISTER PATOLICHEV. IN THIS MEETING THE FOLLOWING ALSO PARTICIPATED:

SOVIET SIDE: I.I. FEDOV (SOYUZNEFTEEXPORT)  
V.P. MOROZOV (SOYUZNEFTEEXPORT)  
R.G. GORBUNOV (MINISTRY OF FOREIGN TRADE)

AMERICAN SIDE: MATLOCK, HINTON, MONTGOMERY AND NILES.

WE MET FOR SLIGHTLY OVER ONE AND ONE-HALF HOURS DURING WHICH WE COVERED THE KEY ELEMENTS WHICH WOULD HAVE TO BE CONSIDERED IN AN OIL PURCHASE AGREEMENT. WE ESTABLISHED GENERAL PARAMETERS FOR FURTHER NEGOTIATIONS, WHICH ARE TO BE RENEWED ON OUR RETURN TO MOSCOW IN APPROXIMATELY ONE WEEK. IT IS CLEAR THAT WE WILL FACE DIFFICULT ISSUES IN THESE NEGOTIATIONS, PARTICULARLY WITH REGARD TO THE PRICING FORMULA. TO HAVE ANY CHANCE OF SUCCESS, IT IS CLEAR THAT WE WILL HAVE TO APPLY MAXIMUM PRESSURE

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AT THE APPROPRIATE TIME. END SUMMARY.

2. I INITIATED THE DISCUSSION BY OUTLINING OUR BASIC CONCEPT FOR AN OIL PURCHASE AGREEMENT PER MY PREVIOUS UNDERSTANDING WITH YOU, AS FOLLOWS:

A. TERM - FIVE YEARS FROM OCTOBER 1, 1976.

(COMMENT: I EXPLAINED THAT THIS PARALLELED THE TERM OF THE GRAIN SALES AGREEMENT TO ALLOW FOR CROSS REFERENCE IN THE EVENT OF TONNAGE ADJUSTMENTS FOR REASONS OF FORCE MAJEURE AND ALSO TO PROVIDE FOR EMPLOYMENT OF US-FLAG VESSELS EMPLOYED FOR DELIVERIES OF U.S. GRAIN TO THE SOVIETS.)

B. QUANTITY - 12 MILLION METRIC TONS PER YEAR OR APPROXIMATELY 215 THOUSAND BARRELS PER DAY.

C. PRODUCTS - PRIMARILY CRUDE OIL, ALTHOUGH WE WERE WILLING TO CONSIDER AS A CONCESSION THE POSSIBILITY OF ACQUIRING CERTAIN REFINED PRODUCTS TO BE AGREED.

3. I EXPLAINED THAT SUCH AN AGREEMENT WOULD:

A. PROVIDE THE SOVIETS WITH HARD CURRENCY FOR PURCHASE OF GRAIN UNDER OUR PROPOSED AGREEMENT.

B. EXPAND U.S.-USSR RELATIONSHIP IN THE ENERGY FIELD WHICH COULD HAVE IMPORTANT LONG-TERM IMPLICATIONS.

C. GIVE GREATER MEANING TO DETENTE BY PROVIDING SUBSTANTIAL BENEFITS TO BOTH SIDES OVER THE LONG TERM. THIS WOULD HAVE A POSITIVE EFFECT ON BOTH PUBLIC AND CONGRESSIONAL ATTITUDES.

D. PROVIDE THE U.S. WITH AN EFFECTIVE ARGUMENT TO SUPPORT A DECISION TO SUPPLY ADDITIONAL GRAIN TO THE SOVIETS DURING THE CURRENT YEAR.

4. KUZ'MIN RESPONDED IN A PREDICTABLE MANNER WITH A CLAIM THAT WE WERE ATTEMPTING TO LINK THE OIL AND GRAIN CONTRACTS, CONTRARY TO OUR PREVIOUS AGREEMENT. HE  
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STATED SPECIFICALLY THAT:

A. THE DATES AND PERIOD SHOULD DIFFER FROM THOSE IN THE GRAIN AGREEMENT AND SUGGESTED A TERM AGREEMENT ESTABLISHED ON A CALENDAR YEAR BASIS.

B. BOTH THE GRAIN AND THE OIL AGREEMENTS CONTAIN FORCE MAJEURE PROVISIONS PROTECTING AGAINST UNFORESEEN

CIRCUMSTANCES, BUT THERE SHOULD BE NO LINKAGE BETWEEN THE TWO AGREEMENTS.

C. WITH REGARD TO OIL SHIPMENTS AND US-FLAG VESSELS DELIVERING GRAIN, THIS QUESTION SHOULD BE EXCLUDED FROM THE OIL AGREEMENT, AS IT SHOULD BE HANDLED THROUGH BILATERAL MARITIME AGREEMENT.

5. WITH REGARD TO CONTRACT QUANTITIES, HE DID NOT REJECT THE 12 MILLION METRIC TON PROPOSAL BUT INDICATED THAT THIS MATTER WOULD HAVE TO BE HANDLED BY MINISTER PATOLICHEV. HOWEVER, IT WOULD APPEAR THAT WE MIGHT COME CLOSE TO OUR SUGGESTED FIGURE. HE EXPRESSED SATISFACTION THAT WE HAD AGREED TO CONSIDER REFINED PRODUCTS AND INDICATED THAT, IN ADDITION TO CRUDE OIL, THEIR PRIMARY INTEREST WAS IN THE SALE OF DIESEL FUEL. HE ALSO INDICATED THE POSSIBILITY OF INCLUDING NAPHTHA, INDICATING THAT THEY WERE NOW SELLING ABOUT 1 1/2 MILLION TONS ANNUALLY TO DOW CHEMICAL FOR THEIR HOLLAND OPERATION.

6. KUZ'MIN THEN PROCEEDED TO ASK THE FOLLOWING QUESTIONS:

A. WHAT KIND OF AN AGREEMENT DID WE HAVE IN MIND AND WHAT WOULD BE THE PRIVATE COMPANY INVOLVEMENT IN SUCH AN AGREEMENT? I INDICATED THAT THIS DEPENDED UPON THE SPECIFIC PRODUCTS INVOLVED AND OTHER CONSIDERATIONS WHICH WOULD HAVE TO BE REVIEWED IN WASHINGTON ON MY RETURN.

B. KUZ'MIN EXPRESSED CONCERN OVER U.S. OIL IMPORT DUTIES. THIS CONCERN APPEARED TO BE BASED ON HIS ASSUMPTION THAT THEIR FOB PRICE WOULD BE REDUCED BY OUR PRESENT TWO-DOLLAR IMPORT FEE AND OUR NON-MFN TARIFF. I EXPLAINED THAT THE TWO-DOLLAR FEE WAS NOW UNDER REVIEW BUT IN ANY EVENT THIS  
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WOULD BE A CONCERN OF THE PURCHASER AND NOT OF THE SELLER.

C. KUZ'MIN EXPRESSED A CONCERN OVER THE HIGH SHIPPING COST TO THE U.S. AND SUGGESTED THAT WE CONSIDER A SWAP OF PETROLEUM PRODUCTS FOR USE BY U.S. COMPANIES OPERATING IN EUROPE. I ASSURED HIM THAT THIS WOULD BE GIVEN FULL CONSIDERATION.

D. KUZ'MIN EXPRESSED IN VERY STRONG TERMS WHAT IS CLEARLY THEIR PRIMARY CONCERN OVER THE PRICING FORMULA. I ATTEMPTED TO FINESSE THIS QUESTION ON THE BASIS THAT IT WOULD REQUIRE DETERMINATION OF PRODUCTS TO BE DELIVERED, MARKETING CHANNELS AND OTHER CONSIDERATIONS. HOWEVER, IT WAS CLEAR THAT KUZ'MIN WAS UNDER INSTRUCTIONS TO ESTABLISH THAT IT WAS THEIR INTENT THAT ALL SALES WOULD

BE AT "WORLD MARKET PRICE." IN MY JUDGMENT WE WILL NOT OBTAIN A SIGNIFICANT PRICE REDUCTION UNTIL WE REACH THE MOMENT OF TRUTH WHICH CLEARLY LINKS THE OIL PURCHASE AGREEMENT WITH SUPPLEMENTAL GRAIN SALES FOR THE CURRENT YEAR. THIS WAS CLEARLY NOT THE MOMENT TO TAKE THIS POSITION AND, ACCORDINGLY, I STATED THAT WE WOULD HAVE TO EXPLORE ALL ASPECTS OF A POSSIBLE AGREEMENT, RECOGNIZING THAT UNLESS IT WAS AN ATTRACTIVE PACKAGE FROM THE U.S. STANDPOINT WE COULD NOT JUSTIFY A SHIFT FROM OTHER SOURCES OF OIL AND WE CLEARLY WOULD FAIL TO ACHIEVE THE POLITICAL OBJECTIVES WHICH WOULD MAKE THE SUPPLEMENTAL GRAIN POSSIBLE.

7. WE CONCLUDED DISCUSSIONS ON THE BASIS THAT WE FACED A MAJOR PROBLEM IN ESTABLISHING THE PRICE AND OTHER TERMS FOR AN OIL PURCHASE AGREEMENT, BUT THAT THIS WOULD BE DEVELOPED FROM FURTHER DISCUSSIONS. WE REQUESTED THAT THEY SUPPLY THROUGH OUR EMBASSY FURTHER INFORMATION WITH REGARD TO SPECIFIC PRODUCTS AND AVAILABLE QUANTITIES. WE WILL PROBABLY HAVE TO CONTINUE PRESSING THE SOVIETS FOR THIS INFORMATION AND IN THIS EFFORT WE MAY WELL FIND IT USEFUL TO RELATE OUR SCHEDULED RETURN TO MOSCOW TO THE AVAILABILITY OF THIS INFORMATION. MATLOCK

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